

**CONSOLIDATED RURAL  
WATER DISTRICT NO. 3  
SHAWNEE COUNTY, KANSAS**

**FINANCIAL STATEMENTS  
For the years ended December 31, 2014 and 2013**

**And**

**INDEPENDENT AUDITOR'S REPORT**

**...KL...**

***Karlin & Long, LLC***  
***Certified Public Accountants***

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# **RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

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**Karlin & Long, LLC**  
*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT  
ON FINANCIAL STATEMENTS**

To the Board of Directors  
Consolidated Rural Water District No. 3,  
Shawnee County, Kansas  
Topeka, Kansas 66610

We have audited the accompanying financial statements of the business-type activities of the Consolidated Rural Water District No. 3 as of and for the year ended December 31, 2014, which comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Consolidated Rural Water District No. 3, Shawnee County, Kansas, as of December 31, 2014, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

The financial statements of the prior period presented were audited by a predecessor auditor. The predecessor auditor expressed an unmodified opinion on the prior period financial statements. The date of the predecessor auditor report on financial statements was January 20, 2014.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Consolidated Rural Water District No. 3, Shawnee County, Kansas financial statements as a whole. The Schedule of Insurance in Force is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Karlin & Long, LLC  
Certified Public Accountants  
Lenexa, KS  
February 15, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion of the financial performance of Consolidated Rural Water District No. 3, Shawnee County Kansas (the District), provides an overview of the financial activities of the District for the fiscal year ended December 31, 2014 and comparative data for the fiscal years ended December 31, 2014 and December 31, 2013. This information is presented in conjunction with the audited financial statements that follow this section.

During fiscal year 2003, the District adopted the financial reporting format required by the Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

### **Financial Highlights**

The District's net assets increased by \$ 121,172. This was principally due to operating income, sales of benefit units, and other fees.

The District realized income from operations of \$ 68,187, after recognizing depreciation and amortization expense of \$ 69,039.

Total cash on hand at December 31, 2014 was \$ 1,281,323 which was an increase of \$ 129,401 over the cash on hand on December 31, 2013.

### **Overview of the Financial Statements**

The financial statements presented herein include all of the activities of the District.

The District's basic financial statements comprise two components: 1) basic financial statements, and 2) notes to financial statements.

### **Basic Financial Statements.**

The financial statements present the financial picture of the District from the economic resource measurement focus using the accrual basis of accounting.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the District's net position has changed over the two most recent fiscal years.

All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing related to cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

#### **Notes to basic financial statements.**

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to basic financial statements can be found on pages 11 - 22 of this report.

The District's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to its participating members (customers); consequently, these assets are not available for future spending.

The District's restricted net position represents the amount of assets that are reserved for the purpose of a bond reserve requirement, consequently, these assets are not available for future spending.

The unrestricted net position may be used to meet the District's ongoing obligations to its customers and creditors.

#### **Capital Assets**

The District's investment in capital assets for its business-type activities as of December 31, 2014 and 2013 was \$ 3,869,924 and \$ 3,949,733, respectively, (net of accumulated depreciation). This includes land, buildings, infrastructure and facilities and equipment.

Additional information on the District's capital assets can be found in Note 11 on pages 20-23 of this report.

#### **Debt Administration**

At the end of fiscal year 2014, the District had long term debt outstanding of \$ 939,918.

Additional information on the districts long term debt can be found in Note 9 to the basic financial statements

## **Economic Factors and Next Year's Budget and Rates**

The Annual Budget outlines the staff's plan to carry out the District's mission of providing a safe and dependable supply of potable water for the public health and safety of Shawnee County.

As a product of an ongoing examination of how the District does it's business, our budget seeks to assure that we have the necessary funds to accomplish our objectives, while insuring that our rates and charges remain as competitive as possible.

Continued growth within the District is anticipated. The potential of City annexation into our area is a factor that could have an impact upon our operations, and the Board of Directors continues to monitor and participate in that process.

## **Requests for Information**

This financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the money that it receives. If you have any questions about this report or desire any additional information, contact the general manager at 4926 SW Wanamaker Rd, Topeka, KS 66610, or phone (785) 862-3305.

**CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

**STATEMENTS OF NET POSITION**

As of December 31, 2014 and 2013

	<b>ASSETS</b>	
	2014	2013
Current Assets		
Cash and cash equivalents	\$ 216,213	\$ 242,900
Short-term investments	1,037,710	881,522
Accounts receivable	70,518	76,322
Interest receivable		362
Inventory	42,515	53,856
Prepaid expenses	22,227	17,670
Total current assets	1,389,183	1,272,632
Property, plant, and equipment, net	3,869,924	3,949,733
Bond Reserve	27,500	27,500
Total Assets	<u>\$ 5,286,607</u>	<u>\$ 5,249,865</u>
<b>LIABILITIES AND NET POSITION</b>		
Current Liabilities		
Current maturity of long-term debt	\$ 98,128	\$ 100,622
Accounts payable	46,940	31,635
Other accrued liabilities	8,548	7,323
Total current liabilities	153,616	139,580
Long Term Debt, net of current maturities	841,790	940,256
Net Position		
Invested in capital assets	2,930,006	2,908,855
Restricted	27,500	27,500
Unrestricted	1,333,695	1,233,674
Total net position	4,291,201	4,170,029
Total Liabilities and Net Position	<u>\$ 5,286,607</u>	<u>\$ 5,249,865</u>

The notes to the financial statements are an integral part of this statement.



**CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the years ended December 31, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Water sales	\$ 767,224	\$ 782,202
City of Topeka water sales	26,916	
Water sales RWD #8	282,348	286,635
Total operating revenues	1,076,488	1,068,837
Cost of water purchased	587,317	586,703
Gross profit	489,171	482,134
<b>Operating Expenses</b>		
Depreciation and amortization	69,039	148,199
Wages	178,717	126,004
Payroll taxes	15,169	10,643
Employee pension and benefits	14,601	10,651
Repairs	44,395	56,582
Insurance	19,279	21,285
Office expense	14,257	16,969
Professional fees	17,199	14,730
Board member expense	5,375	3,500
Water taxes	7,128	7,691
Engineering	5,499	10,885
Utilities	26,736	24,355
Miscellaneous	6,084	4,615
Total operating expenses	423,478	456,109
Income (loss) from operations	65,693	26,025

The notes to the financial statements are an integral part of this statement.

**CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the years ended December 31, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>Non-Operating Revenues (Expense)</b>		
Interest income	14,894	17,365
Other fees	14,192	13,975
Penalties/ late charges	7,443	7,507
Interest expense	(42,093)	(44,462)
Other expense		(9,404)
Total non-operating income (expense)	(5,564)	(15,019)
<b>Net Income (loss) Before Contributions</b>	60,129	11,006
<b>Capital Contributions</b>		
Benefit units sold	33,750	34,145
Contributions in aid of construction	27,293	
Total capital contributions	61,043	34,145
<b>Change in Net Position</b>	121,172	45,151
<b>Net Position - Beginning of Year</b>	4,170,029	4,124,878
<b>Net Position - End of Year</b>	<u>\$ 4,291,201</u>	<u>\$ 4,170,029</u>

The notes to the financial statements are an integral part of this statement.

**CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

**STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Cash receipts from customers and reimbursements for services	\$ 1,082,292	\$ 1,085,125
Miscellaneous cash receipts		
Cash payments for goods and services	(709,955)	(772,055)
Cash payments to employees for services	<u>(208,487)</u>	<u>(147,298)</u>
Net cash provided by operating activities	<u>163,850</u>	<u>165,772</u>
Cash flows from investing activities		
Interest income	14,532	17,637
Change in bond reserve	-	-
Redemption of certificates of deposit	16,798	112,401
Purchase of certificates of deposit	<u>(125,000)</u>	<u></u>
Net cash provided by investing activities	<u>(93,670)</u>	<u>130,038</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(33,998)	(230,479)
Principal payment on long-term debt	(103,454)	(98,262)
Interest paid	(42,093)	(45,541)
Proceeds from sale of benefit units	33,750	34,145
Contributions in aid of construction	<u>27,293</u>	<u></u>
Net cash used in capital and related financing activities	<u>(118,502)</u>	<u>(340,137)</u>
Cash flows from non-capital financing activities		
Other income	<u>21,635</u>	<u>12,078</u>
Net increase in cash and cash equivalents	(26,687)	(32,249)
Cash and cash equivalents, beginning of year	<u>242,900</u>	<u>275,149</u>
Cash and cash equivalents, end of year	<u>\$ 216,213</u>	<u>\$ 242,900</u>

The notes to the financial statements are an integral part of this statement.

**CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

**STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 65,693	\$ 26,025
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	69,039	148,199
Changes in assets and liabilities		
Accounts receivable	5,804	16,288
Inventory	11,341	(5,737)
Prepaid expenses	(4,557)	(2,364)
Accounts payable	15,305	(16,639)
Accrued expenses	<u>1,225</u>	<u></u>
Net cash provided by operating activities	<u>\$ 163,850</u>	<u>\$ 165,772</u>

The notes to the financial statements are an integral part of this statement.

# **CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – Summary of Significant Accounting Policies**

#### **Organization**

Consolidated Rural Water District No. 3, Shawnee County (the District) was organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District's purpose and objective is to acquire water and water rights, to build and acquire pipelines and for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons in Shawnee County.

#### **GASB Statement No. 34**

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions and includes:

#### **Management's Discussion and Analysis**

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analysis overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

#### **Statement of Net Position or Balance Sheet**

This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories 1) invested in capital assets, net of depreciation; 2) restricted (if applicable); and 3) unrestricted.

# CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – Summary of Significant Accounting Policies (continued)

#### GASB Statement No. 34 (continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

#### GASB Statement No. 20

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all proprietary funds continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either choosing not to apply future FASB standards (including amendments of earlier pronouncements), or continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards for proprietary funds.

#### Budget

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

#### Cash and Cash Equivalents

For the purposes of the statement of cash flows the District defines cash and cash equivalents as demand deposits and certificates of deposit at banks with maturities of three months or less.

# **CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – Summary of Significant Accounting Policies (continued)**

#### **Certificates of Deposit**

The certificates of deposit represent nonnegotiable certificates of deposit. The Certificates of deposit are recorded at cost because they are not affected by market rate changes.

#### **Accounts Receivable**

The District reads meters during the week of the 20<sup>th</sup> each month and the invoices are mailed out on the 1<sup>st</sup> of each month. Payments for water service are due the 20<sup>th</sup> day of the following month or will be subject to a late charge of 5% The District considers all accounts collectable.

#### **Inventory**

Inventories consist of primarily water meters, pipe, and line maintenance material. Inventories are stated at the lower cost or market. Cost is determined using the first in first out (FIFO) method

#### **Property, Plant, and Equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The district does not have a formal capitalization policy. Depreciation expense totaled \$ 69,039 and \$ 148,199 for the years ended December 31, 2014 and 2013, respectively.

#### **Bond Reserve**

As part of the Water Utility System Revenue Bonds, Series 2012, the District is required to maintain a bond reserve amount equal to 10% of the original principal amount.

**CONSOLIDATED RURAL WATER DISTRICT NO. 3**  
Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies (continued)**

**Benefit Units**

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$ 2,000 and installation fees of 1,200.

**Aid in Construction**

Aid in Construction represents contributions from the members for line extensions, and are included in the statement of activities

**Net Position**

The District's net position is classified as follows:

Invested in capital assets, net of accumulated depreciation – This represents the District's total investment in capital assets, net of accumulated depreciation.

Restricted net position – This includes amounts set aside for bond requirements.

Unrestricted net position – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

**Use of Estimates**

The preparation of financial statements in compliance with generally accepted accounting principles requires managements to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes**

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.

The District's payroll tax returns for the years ending 2014, 2013, and 2012 are subject to examination by the IRS, generally for three years after they were filed.



## CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 2 – Deposits and Investments

##### Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the district. The statute requires banks eligible to hold the district's funds have a main or branch bank in the county in which the district is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the district's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

##### Concentration of Credit Risk

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

##### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2014 and 2013.

At December 31, 2014 and 2013, the District's carrying amount of deposits, including certificates of deposit, was \$1,281,323 and \$1,151,922 respectively, and the bank balance was \$1,281,373 and \$ 1,151,972 respectively, of which \$ 696,037 was covered by FDIC insurance. \$ 585,336 was collateralized by securities held in safekeeping pledged to the District.

**CONSOLIDATED RURAL WATER DISTRICT NO. 3**  
Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies**

**Organization**

Consolidated Rural Water District No. 3, Shawnee County (the District) was organized under Kansas law and is accounted for as an enterprise fund using the accrual basis of accounting. The District's purpose and objective is to acquire water and water rights, to build and acquire pipelines and for the purpose of furnishing water for domestic, agriculture, and/or other purposes. The District provides services to patrons in Shawnee County.

**GASB Statement No. 34**

In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The statement known as the "Reporting Model" statement, affects the way the District prepares and presents information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental information to make decisions and includes:

**Management's Discussion and Analysis**

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analysis overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

**Statement of Net Position or Balance Sheet**

This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories 1) invested in capital assets, net of depreciation; 2) restricted (if applicable); and 3) unrestricted.

**CONSOLIDATED RURAL WATER DISTRICT NO. 3**  
Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies (continued)**

**GASB Statement No. 34 (continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. The statement of cash flows provides information about how the District meets the cash flow needs of its activities.

**GASB Statement No. 20**

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all proprietary funds continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds have the option of either choosing not to apply future FASB standards (including amendments of earlier pronouncements), or continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards for proprietary funds.

**Budget**

The District prepares its budget for the fiscal year using the same basis of accounting as the financial statements. A comparison of actual to budget is not presented in the financial statements.

**Cash and Cash Equivalents**

For the purposes of the statement of cash flows the District defines cash and cash equivalents as demand deposits and certificates of deposit at banks with maturities of three months or less.

# **CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – Summary of Significant Accounting Policies (continued)**

#### **Certificates of Deposit**

The certificates of deposit represent nonnegotiable certificates of deposit. The Certificates of deposit are recorded at cost because they are not affected by market rate changes.

#### **Accounts Receivable**

The District reads meters during the week of the 20<sup>th</sup> each month and the invoices are mailed out on the 1<sup>st</sup> of each month. Payments for water service are due the 20<sup>th</sup> day of the following month or will be subject to a late charge of 5% The District considers all accounts collectable.

#### **Inventory**

Inventories consist of primarily water meters, pipe, and line maintenance material. Inventories are stated at the lower cost or market. Cost is determined using the first in first out (FIFO) method

#### **Property, Plant, and Equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation. Improvements and betterments to existing property and equipment are capitalized. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The district does not have a formal capitalization policy. Depreciation expense totaled \$ 69,039 and \$ 148,199 for the years ended December 31, 2014 and 2013, respectively.

#### **Bond Reserve**

As part of the Water Utility System Revenue Bonds, Series 2012, the District is required to maintain a bond reserve amount equal to 10% of the original principal amount.

# **CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – Summary of Significant Accounting Policies (continued)**

#### **Benefit Units**

Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$ 2,000 and installation fees of 1,200.

#### **Aid in Construction**

Aid in Construction represents contributions from the members for line extensions, and are included in the statement of activities

#### **Net Position**

The District's net position is classified as follows:

Invested in capital assets, net of accumulated depreciation – This represents the District's total investment in capital assets, net of accumulated depreciation.

Restricted net position – This includes amounts set aside for bond requirements.

Unrestricted net position – This includes resources derived from sales and services. These resources are used for transactions relating to providing sales and services and general operations of the District and may be used at the discretion of the governing board to meet current expense for any purpose.

#### **Use of Estimates**

The preparation of financial statements in compliance with generally accepted accounting principles requires managements to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Income Taxes**

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.

The District's payroll tax returns for the years ending 2014, 2013, and 2012 are subject to examination by the IRS, generally for three years after they were filed.

## **CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 2 – Deposits and Investments**

##### **Deposits**

K.S.A. 9-1401 establishes the depositories which may be used by the district. The statute requires banks eligible to hold the district's funds have a main or branch bank in the county in which the district is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the district's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The district has no investment policy that would further limit its investment choices.

##### **Concentration of Credit Risk**

State statutes place no limit on the amount the district may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

##### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2014 and 2013.

At December 31, 2014 and 2013, the District's carrying amount of deposits, including certificates of deposit, was \$1,281,323 and \$1,151,922 respectively, and the bank balance was \$1,281,373 and \$ 1,151,972 respectively, of which \$ 696,037 was covered by FDIC insurance. \$ 585,336 was collateralized by securities held in safekeeping pledged to the District.

## CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 2 – Deposits and Investments (continued)

##### Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

#### NOTE 3 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years. See Schedule of Insurance in Force for details of insurance.

#### NOTE 4 – Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretation of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. We noted no violations of Kansas statutes during the years ended December 31, 2014 and 2013. However, the District did have water quality violations in 2014.

#### NOTE 5 – Concentrations of Suppliers and Customers

The District acquires 100% of its water from the City of Topeka, Kansas. There are no other suppliers of water available for this district.

The District sells water to Rural Water District No. 8, Osage County, Kansas. In 2014 and 2013, the District sold 53,783,000 gallons and 57,082,000 gallons of water which accounted for 35% and 32% of the gallons sold, respectively.

#### NOTE 6 – Pension Plan

The District has a Savings Incentive Match Plan for Employees (SIMPLE) whereby, the eligible employees defer 3% of their compensation and the District contributes 3%. All contributions made under the SIMPLE plan are fully vested and non-forfeitable. For the years ended December 31, 2014 and 2013, the District contributed \$ 4,349 and \$ 3,488, respectively to the SIMPLE plan.

# CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7– Contracts

In August 1980, Rural Water District No. 6, Shawnee County, Kansas entered into an agreement with the City of Topeka, Kansas (City) to purchase water. As part of the agreement, the District paid the City \$ 794,700 as a connection charge. The agreement is for a forty year period.

In June 1991, Rural Water District No. 7, Shawnee County Kansas entered into an agreement with the City of Topeka, Kansas (City) to purchase water. As part of the agreement, the District paid the City \$ 69,500 as a connection charge. The City will provide water not to exceed 250 gallons per minute.

In August 2005, the City of Topeka entered into an agreement with Consolidated Rural Water District No. 3 Shawnee County, Kansas to continue to provide water under the above contracts.

In 2014 and 2013 the District purchased 155,373,000 gallons and 154,613,690 gallons of water, respectively, at an average rate of \$ 3.78 per thousand gallons.

### NOTE 8 –Property, Plant, and Equipment

The following represents property, plant, and equipment of the District:

	<u>2014</u>	<u>2013</u>
Land	\$ 34,579	\$ 34,579
Distribution system	5,260,030	5,274,523
Building	579,680	579,680
Office equipemnt	20,206	26,572
Shop equipment	239,240	270,575
Connection fee	<u>874,224</u>	<u>874,224</u>
	7,007,959	7,060,153
Accumulated depreciation	<u>3,138,035</u>	<u>3,110,420</u>
Book value	<u>\$ 3,869,924</u>	<u>\$ 3,949,733</u>



**CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

**NOTES TO FINANCIAL STATEMENTS****NOTE 8 –Property, Plant, and Equipment (continued)**

The following represents a roll-forward of property, plant, and equipment as of December 31, 2014 and 2013:

	2013 Rollforward		
	Beginning Balance	Additions	Dispositions
Land	\$ 34,579		
Distribution system	5,150,577	123,946	
Building	579,130	550	
Office equipment	26,572		
Shop Equipment	138,379	132,196	
Connection Fee	874,224		
	<u>\$ 6,803,461</u>	<u>\$ 256,692</u>	<u>\$ -</u>

	2014 Rollforward		
	Beginning Balance	Additions	Dispositions
Land	\$ 34,579		
Distribution system	5,274,523	29,507	44,000
Building	579,680		
Office equipment	26,572	2,212	8,578
Shop Equipment	270,575	2,299	33,614
Connection Fee	874,224		
	<u>\$ 7,060,153</u>	<u>\$ 34,018</u>	<u>\$ 86,192</u>

# CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

## NOTES TO FINANCIAL STATEMENTS

### NOTE 8 – Property, Plant, and Equipment (continued)

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

Distribution lines	5,000	Straight Line	40 years
Meters	5,000	Straight Line	40 years
Shop Equipment	5,000	Straight Line	3-10 years
Office equipment	5,000	Straight Line	3-10 years
Purification	5,000	Straight Line	10-20 years
Furniture and Fixtur	5,000	Straight Line	3-10 years
Connection fee	5,000	Straight Line	40 years

### NOTE 9 – Long Term Debt

In 2013, the District refinanced the Series 2005 Bonds with Water Utility System Revenue Bonds, Series 2012 totaling \$ 275,000 (\$ 185,000 outstanding at December 31, 2014) bearing interest at .50% to 1.50%. Annual principal payments range from \$ 45,000 to \$ 50,000 beginning October 1, 2013 through October 1, 2018. Interest payments begin April 1, 2013 and are paid semi-annually on April 1 and October 1. Revenues of the District have been pledged as collateral for the bonds.

During 2009, the District entered into an agreement with Silver Lake Bank for a closed ended credit facility of up to \$ 1,000,000 (\$ 754,918 outstanding at December 31, 2014). In February 2010, the construction loan was converted to into a 15 year term loan. The loan matures in February 2025 and has an interest rate of 1% above prime, with a floor of five percent. The proceeds of the loan were used for the construction of a 500,000 gallon water tower and line improvements

The portion of the debt schedule below related to the variable rate loan includes the current amortized interest. The interest rate is subject to change, per the loan agreement.

# CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9 – Long Term Debt (continued)

Long term debt transactions were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Series 2012 Bond	\$ 230,000		\$ 45,000	\$ 185,000
Construction Loan	<u>810,878</u>	<u>          </u>	<u>55,960</u>	<u>754,918</u>
	<u>\$ 1,040,878</u>	<u>0</u>	<u>\$ 100,960</u>	<u>\$ 939,918</u>

Principal and Interest payments for the debt for the next five years and in five year increments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 98,128	\$ 44,572	\$ 142,700
2016	101,264	40,762	142,026
2017	109,586	36,990	146,576
2018	108,104	32,722	140,826
2019	66,830	28,320	95,150
2020-2024	398,203	77,546	475,749
2025	<u>57,803</u>	<u>1,180</u>	<u>58,983</u>
	<u>\$ 939,918</u>	<u>\$ 262,092</u>	<u>\$ 1,202,010</u>

### Compliance With Other Finance-Related Legal and Contractual Provisions

The Water Utility System Revenue Bonds, Series 2012 requires a bond reserve account to be established in the amount equal to 10% of the original revenue bond issuance. The District has not established a separate account for this reserve but has set aside cash balance for the purpose of funding the reserve. The cash balance reserve for 2014 and 2013 was \$ 27,500 and \$ 27,500, respectively.

# CONSOLIDATED RURAL WATER DISTRICT NO. 3

Shawnee County, Kansas

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9 – Long Term Debt (continued)

#### Debt Service Coverage Ratio

As part of the loan, the District is required to maintain a debt service coverage ratio of 1.25 and establish a loan reserve account in the amount of 10% of the initial principal. The District's debt service coverage ratio for 2014 and 2013 is calculated as follows:

	<u>2014</u>	<u>2013</u>
Income (loss) before capital contrib	\$ 60,129	\$ 11,007
Interest expense	42,093	44,462
Depreciation and amortization	<u>69,039</u>	<u>148,199</u>
Available for debt service	171,261	203,668
Debt service	<u>47,327</u>	<u>47,550</u>
Debt service coverage ratio	<u>3.61</u>	<u>4.28</u>

### NOTE 10 – Compensated Absences

For each employee of the District will earn paid vacation for each year of continuous employment as follows

After 1 year	One week (40 hours) each year
After 2 years	Two weeks (80 hours) each year
After 5 years	Three weeks (120 hours) each year

A full year of continuous employment means that as of your anniversary date each year, you can completed at least twelve continuous calendar months of employment. Vacation days may be accumulated up to a minimum of 20 days (160 hours)

Unused vacation will be paid provided the district receives a minimum of two weeks notice of termination of employment from the employee.

Each employee of the district shall accumulate 1 day (8 hours) of sick leave per month beginning the first full month of employment. Sick leave benefits may be accumulated up to a maximum of 30 days (240 hours). Once the maximum amount of sick days has been accumulated by the employee no further days may be accrued. Sick leave benefits may also be used for medical related conditions such as immediate family members shall include your spouse, children, employee's parents, and employees spouse's parents.

## **CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 11 – Other Contracts**

In August 1998, the District entered into a lease agreement with APT Kanas City, Inc. d/b/a as T-Mobile (ATP) for the purpose of leasing tank space for their telecommunication antennas. The lease term is for 5 years with 4 additional 5 year option periods. APT paid the District \$ 13,688 and \$ 11,903 in lease payments in 2014 and 2013, respectively, which is included with “Other Fees” on the Statement of Revenues, Expenses and Changes in Net Position.

#### **NOTE 12 – Subsequent Events Review**

Subsequent events for management’s review have been evaluated through February 15, 2015. This is the date the financial statements were available to be issued.

**CONSOLIDATED RURAL WATER DISTRICT NO. 3**

Shawnee County, Kansas

**SUMMARY OF INSURANCE COVERAGE AND FIDELITY BONDS**

As of December 31, 2014

Property Covered	Coverage	Expires
Commercial property:		
Building and personal property	\$ 1,194,033	12/1/2015
Water towers and equipment	2,340,000	
General Liability:		
Aggregate Limit - products/completed operations	1,000,000	12/1/2015
other than products/completed ops	1,000,000	
Personal and advertising injury	500,000	
Medical expense (per person)	5,000	
Commercial Auto:		
Liability insurance (per loss)	500,000	12/1/2015
Uninsured motorist	500,000	
Workmen's compensation:		
Bodily injury by accident	500,000	12/1/2015
Bodily injury by disease (per employee)	500,000	
Bodily injury by disease (policy limit)	500,000	
Public Employee Dishonesty:		
Per loss	200,000	12/1/2015
Inland Marine		
Miscellaneous Property	323,685	12/1/2015
Linebacker Coverage		
Each loss	1,000,000	12/1/2015
Aggregate	1,000,000	